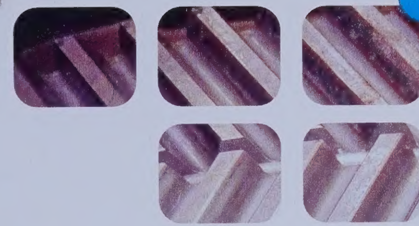
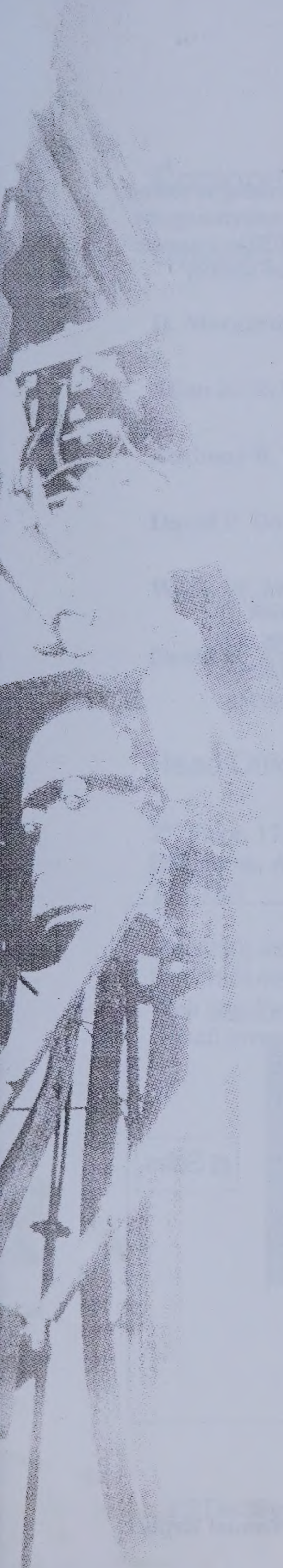


ESTEC SYSTEMS

2003 Annual Report

2003 Annual Report



Director's Message

In each of the past years, the core business of ESTec Systems Corp. has been the engineering services offered by Allan R. Nelson Engineering (1997) Inc., our founding division. Allan R. Nelson has been consistently profitable, enabling us to fund expansion of our engineering business, start up ESTec Oilfield Inc., develop our IntegraLine 150iH Top Drive, and fund continuing research and sales in the software division of ESTec Systems Corp., among other projects.

During the last year, the engineering group generated sales that were about the same as the previous year. We expect the engineering division will remain a consistent contributor to profitability.

During the year, our manufacturing division completed a third top drive, based upon a commitment from a major oil company. Unfortunately the oil company refused to honor their commitment leaving us with a substantial investment in product and no revenue. While we generated $389,000 in top drive rental income, this was largely offset by operating and repair costs. The repair costs were mainly associated with a major pump failure that occurred at the beginning of the rental contract.

Management determined that to remain in the manufacturing and rental business we would have to raise more capital, and we worked with brokers and financial advisors to try to obtain the required financing. At year end a serious potential investor demanded that we reduce the debt in the company prior to completing the financing, and after the yearend, at the end of August we announced a debt for equity transaction for $591,000. Despite the fact that this was more than the investor had asked for, the investor withdrew the financing offer at the end of September 2003. Management is currently investigating opportunities to sell or refinance the manufacturing business through a competitor or a larger organization with the financial resources to support the business.

If we can find a suitable buyer, any money generated from the sale will be re-invested in new product development, and in moving our software product to market.

The third division of the company is the information security and software division. We have a new software product ready to go to market. The computer services and software market has been poor throughout North America for at least 30 months. As a result, there have been and continue to be consolidations and purchases in the industry. We have been unable to create the marketing partnership necessary for introducing our corporate security product to the North American market. We look forward to improvement in the security market as early as this fall, and to attracting a marketing partner for our security software.

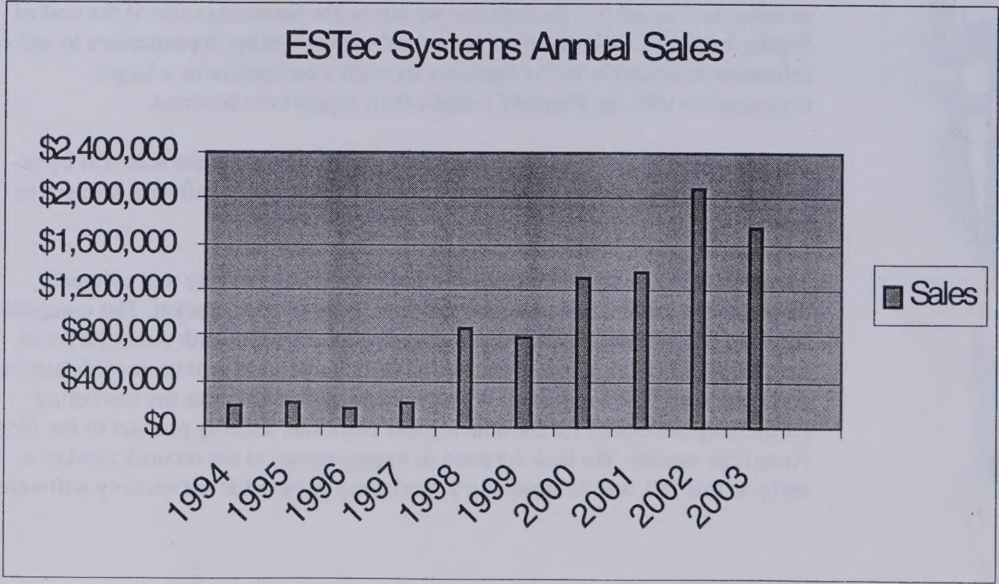
To sum up, at ESTec Systems, the primary focus for the next years will be restructuring or selling off the ESTec Oilfield Inc. manufacturing business. Our second focus will be on maintaining and growing the engineering services division, which has always created the bulk of ESTec's income. The final priority will be on forming a new partnership for marketing our computer security software in North America.

2002/2003

Financial Highlights

Selected Financial Data
as of the Year Ended June 30, 2003

	2003	2002
Revenue	$1,760,517	$2,095,590
Net Profit (loss)	(842,916)	(88,538)
Total Capital Employed	2,334,439	1,934,949



Corporate Directory

Directors & Officers

H. Margaret Nelson, Director

Allan R. Nelson, Director

Anthony B. Nelson, President, Director

David P. Downey, Director

Willie W. Mounzer, Director

David E. Wright, Director

Head Office

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Auditors

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1501 Toronto Dominion Tower
10088 – 102 Avenue
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T5J 2Z1

Ph. (780) 441 6700
Fax (780) 441 6776

Share Transfer Agent

Computershare Investor Services, Inc.
510 Burrard Street
Vancouver, British Columbia
V6C 3B9

Stock Exchange Listing

The shares of ESTec Systems Corporation are listed on the Toronto Venture Exchange
Trading Symbol: **ESE**

ESTec Systems Corp.

Consolidated Financial Statements
June 30, 2003 and 2002

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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Facsimile +1 (780) 441 6776

September 18, 2003
(except for note 17, which is as at September 26, 2003)

Auditors' Report

To the Shareholders of
ESTec Systems Corp.

We have audited the consolidated balance sheets of **ESTec Systems Corp.** as at June 30, 2003 and 2002 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied, except for the change in the method of accounting for goodwill and the change in the method of accounting for stock based compensation as explained in notes 2(g) and 2(h), to the financial statements, on a basis consistent with that of the preceding year.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

ESTec Systems Corp.

Consolidated Balance Sheets

As at June 30, 2003 and 2002

	2003 $	2002 $
Assets		
Current assets		
Accounts receivable	412,430	433,044
Unbilled revenue	93,546	60,914
Inventory (notes 8 and 9)	1,332,413	695,001
Prepaid expenses	83,657	40,576
	1,922,046	1,229,535
Property and equipment (note 4)	113,159	131,101
Deferred development costs (note 5)	223,438	495,267
Other long-term assets	-	3,250
Goodwill (note 6)	75,796	75,796
	2,334,439	1,934,949
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	718,671	535,223
Accounts payable and accrued liabilities (note 8)	1,024,177	317,149
Income taxes payable	37,246	32,437
Due to related party (note 9)	49,553	44,744
	1,829,647	929,553
Due to related parties (note 9)	656,097	314,185
	2,485,744	1,243,738
Shareholders' Equity		
Share capital (note 11)	1,231,933	1,231,533
Deficit	(1,383,238)	(540,322)
	(151,305)	691,211
	2,334,439	1,934,949

Approved by the Board of Directors

(Signed) H. Margaret Nelson ______ Director

(Signed) Anthony B. Nelson ______ Director

ESTec Systems Corp.

Consolidated Statements of Deficit

For the years ended June 30, 2003 and 2002

	2003 $	2002 $
Balance – Beginning of year	540,322	451,784
Net loss for the year	842,916	88,538
Balance – End of year	1,383,238	540,322

ESTec Systems Corp.

Consolidated Statements of Operations

For the years ended June 30, 2003 and 2002

	2003 $	2002 $
Revenue (note 13)	1,760,517	2,095,590
Direct expenses		
Consulting	101,247	56,057
Cost of goods sold	76,068	556,554
Travel and automotive	50,044	72,297
Supplies	8,599	21,893
	235,958	706,801
	1,524,559	1,388,789
Selling, general and administrative expenses	1,875,656	1,282,517
Product development costs	352,011	-
Amortization	96,156	149,539
Loss on disposal of property and equipment	5,986	10,371
Loss before income taxes	(805,250)	(53,638)
Income taxes (note 10(c))	37,666	34,900
Net loss for the year	(842,916)	(88,538)
	$	$
Basic and diluted loss per share (note 14)	(.079)	(.008)
	#	#
Weighted average number of shares outstanding (note 14)	10.736.095	10,625,939

ESTec Systems Corp.

Consolidated Statements of Cash Flows

For the years ended June 30, 2003 and 2002

	2003 $	2002 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(842,916)	(88,538)
Items not affecting cash		
Amortization	96,156	149,539
Loss on disposal of property and equipment	5,986	10,371
Product development costs	211,914	-
	(528,860)	71,372
Net change in non-cash working capital items (note 16)	19,327	(353,592)
	(509,533)	(282,220)
Financing activities		
Bank indebtedness	183,448	237,025
Advances from related parties – net	347,121	98,886
Issuance of capital stock	-	216,480
	530,569	552,391
Investing activities		
Purchase of property and equipment	(21,091)	(63,862)
Deferred development costs	(3,195)	(224,881)
Proceeds on sale of property and equipment	-	3,680
Other long-term assets	3,250	14,892
	(21,036)	(270,171)
Net change in cash	-	-
Cash – Beginning of year	-	-
Cash – End of year	-	-
Supplementary information		
Interest paid	46,832	25,806
Income taxes paid	32,437	19,215

1 Going concern assumption

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that ESTec Systems Corp. (the "Company") will be able to realize its assets and discharge its liabilities in the normal course of business. The use of such principles may not be appropriate as the Company has been unable to generate a profit from operations. The Company's current credit facilities are not sufficient to fund working capital and other cash requirements to June 30, 2003 and the Company has not maintained compliance with its debt covenants as described in note 7. The Company's ability to continue as a going concern is dependent on accessing additional funding.

Subsequent to year-end, the Company entered into an agreement to issue 4,935,492 new common shares in exchange for forgiveness of related party and third party debt totalling $592,257. As of September 26, 2003, the debt settlement agreement had been approved by the TSX Venture Exchange, but approval had not yet been obtained from the relevant securities commissions.

Although there is no assurance, management believes that the going concern basis appropriate. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be significant.

2 Significant accounting policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly owned subsidiaries, Allan R. Nelson Engineering (1997) Inc., ESTec Oilfield Inc. and ESTec Equipment Rentals Inc.

b) Revenue recognition

Revenue from consulting and engineering contracts is recorded as the related service is provided. Revenue recoverable for services provided but not yet billed is shown as unbilled revenue. Revenue from sales of computer software and hardware and oilfield drilling systems is recorded when the related products are delivered and collection is reasonably assured.

c) Inventory

Inventory consists of raw materials, work in process and finished goods, which comprise oilfield drilling systems units. Inventory is carried at the lesser of cost and net realizable value. Cost is determined on a specific item basis. The oilfield drilling systems units are available for sale or for rental.

d) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Changes in these balances are recognized in income in the period that the change occurs. A valuation allowance is provided to the extent that it is more likely than not that a future tax asset will not be realized in the near term.

e) Property and equipment

Property and equipment are recorded at cost. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements, other than those of a major nature, are charged to expense as incurred. The Company provides for amortization at an annual rate, which will amortize the original cost to the estimated salvage value over the useful life of the assets.

Amortization is calculated using the declining balance method at the following annual rates:

Office equipment	20%
Computer hardware	20%
Computer software	30%
Inspection equipment	20%
Automotive equipment	30%

f) Deferred development costs

Development expenditures are expensed as incurred with the exception of costs, which meet criteria whereby the product is clearly defined and its costs are identifiable, the product is technically feasible, management has indicated their intention to produce and market the product, the future market for the product is clearly defined and adequate resources exist to complete the project. Oilfield drilling systems development costs are deferred and charged against revenues on a straight-line basis over five years commencing in the year that revenue is earned from the related development costs. If, at any time, it appears unlikely that capitalized development costs will be recovered through related future revenues, then the unamortized balance is written off as a charge to income in the year in which such a determination is made.

g) Goodwill

Goodwill represents the excess of the purchase price paid for Allan R. Nelson Engineering (1997) Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc., taking into account any events and circumstances which might have impaired the fair value. It was concluded that no impairment exits in the value of the goodwill at June 30, 2003

On July 1, 2002, the Company adopted the requirements of CICA Handbook 3062, Goodwill and Other Intangible Assets. In accordance with the requirements of this section, goodwill is no longer being amortized, but is tested for impairment on an annual basis. Previously goodwill was amortized on a straight-line basis over 40 years. This change has been applied prospectively in the current year and reduced the current year's amortization expense by $13,200.

h) Stock based compensation

The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in note 12. On July 1, 2002, the Company adopted the requirements of CICA Handbook Section 3870, Stock-Based Compensation and Other Stock Based Payments. As encouraged by Section 3870, the Company adopted the fair value based method to account for stock based transactions with non-employee directors. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, will be credited to common share capital.

This change in accounting policy has been applied prospectively. As no options were granted in the current year, there was no impact on the current year. For options granted prior to July 1, 2002, the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When these options are exercised, the proceeds received by the Company are recorded as common share capital. If stock or stock options are repurchased, the excess of the consideration paid over the weighted average carrying amount of the stock or stock option is charged to retained earnings.

i) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

3 Inventory

	2003 $	2002 $
Raw materials	55,752	6,643
Work in process	-	688,358
Finished goods	1,276,661	-
	1,332,413	695,001

Finished goods inventory in the amount of $856,776 have been pledged as collateral as described in notes 8 and 9.

4 Property and equipment

			2003
	Cost $	Accumulated amortization $	Net $
Office equipment	23,503	11,592	11,911
Computer equipment	117,373	59,108	58,265
Inspection and automotive equipment	86,571	43,588	42,983
	227,447	114,288	113,159

			2002
	Cost $	Accumulated amortization $	Net $
Office equipment	21,663	8,765	12,898
Computer equipment	103,902	42,130	61,772
Inspection and automotive equipment	80,845	24,414	56,431
	206,410	75,309	131,101

Amortization of property and equipment for the year was $33,047 (2002 – $27,796).

5 Deferred development costs

			2003
	Cost $	**Accumulated amortization** $	**Net** $
Oilfield drilling systems development costs	318,030	94,592	223,438

			2002
	Cost $	**Accumulated amortization** $	**Net** $
Oilfield drilling systems development costs	314,837	31,484	283,353
Software development costs	308,238	96,324	211,914
	623,075	127,808	495,267

Amortization of deferred development costs for the year was $63,109 (2002 – $108,543). In addition, software development costs of $211,914 were written off during the year ended June 30, 2003.

Significant estimates have been made by management in assessing the net recoverable value of oilfield drilling systems development costs. Actual results could differ from those estimates making it reasonably possible that a material change in the net recoverable value could occur in the near term.

6 Goodwill

	2003 $	**2002** $
Cost	133,150	133,150
Accumulated amortization	57,354	57,354
	75,796	75,796

7 Bank indebtedness

Bank indebtedness is comprised of the following:

	2003 $	2002 $
Cash in bank	(3,449)	(867)
Term deposit	(3,250)	-
Cheques written in excess of bank balance	85,370	36,090
Bank operating lines	640,000	500,000
	718,671	535,223

The bank operating lines are authorized to a total of $700,000 with interest payable at prime plus 1.25%. A general security agreement, a limited guarantee from directors in the amount of $200,000, assignment of collateral mortgages of $500,000 on commercial properties owned by a related company and an assignment of life insurance in the amount of $400,000 on key management have been pledged as collateral for the bank operating lines.

A subsidiary company, ESTec Oilfield Inc., is not in compliance with debt covenants pertaining to its $500,000 operating line. These covenants include maintaining minimum working capital and debt to equity ratios and maintaining a minimum amount of equity in ESTec Oilfield Inc. A waiver has not been obtained by the lender, therefore, the lender may take action to accelerate repayment or realize on collateral pledged as security.

8 Accounts payable and accrued liabilities

The Company has entered into a general security agreement, signed a promissory note and pledged specific inventory with a net book value at June 30, 2003 of $128,744 to a third party creditor with respect to an account payable in the amount of $67,438. The Company has entered into a security agreement pledging specific inventory with a net book value at June 30, 2003 of $243,032 with respect to an account payable in the amount of $86,601.

Subsequent to June 30, 2003, $221,910 of accounts payable were repaid through the issuance of common shares as described in note 17.

9 Related party transactions and balances

During the year, the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were at market prices, are as follows:

	2003 $	2002 $
Payment of rent to 262233 Alberta Ltd.	105,975	75,636

	$	$
Due to directors – interest at prime plus 1.25%	49,553	44,744

	$	$
Due to related party	34,877	-
Due to directors	196,914	125,916
Due to corporations controlled by directors	424,306	188,269
	656,097	314,185

Loans payable to related parties in the amount of $656,097 (2002 – $314,185) are non-interest bearing and due on demand. Inventory with a book value of $525,000 has been pledged as collateral for related party debt in the amount of $155,543 at June 30, 2003. Written confirmation has been provided that payment will not be demanded before July 1, 2004. However, subsequent to June 30, 2003, $370,747 of this debt was repaid on the issuance of common shares described in note 17.

10 Income taxes

a) The components of net future income tax assets and liabilities are as follows:

	2003 $	2002 $
Future income tax assets		
Other long-term assets	6,900	7,700
Accounts payable and accrued liabilities	-	3,900
Non-capital losses	536,400	346,700
Capital losses	152,800	171,300
Valuation allowance	(553,500)	(280,300)
	142,600	249,300
Future income tax liabilities		
Unbilled revenue	32,700	23,900
Property and equipment	5,200	4,000
Deferred development costs	78,200	191,700
Goodwill	26,500	29,700
	142,600	249,300
Net future tax assets (liabilities)	-	-

b) The Company and its subsidiaries have approximately $1,533,000 of non-capital losses and $436,621 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

	$
2005	119,000
2006	312,000
2007	204,000
2008	43,000
2009	202,000
2010	653,000
Total non-capital losses carried forward	1,533,000

The potential benefit of $407,000 (2002 – $625,000) of these non-capital losses has been recorded in these financial statements.

c) The components of the income tax expense are as follows:

	2003 $	2002 $
Tax expense at the statutory rate of 38.4%	(309,000)	(21,000)
Valuation allowance	273,200	33,500
Change in substantively enacted rates	67,000	20,500
Permanent differences and other	6,466	1,900
	37,666	34,900

11 Share capital

Authorized
30,000,000 common shares without par value

Issued

	2003		2002	
	Number of shares #	Stated capital $	Number of shares #	Stated capital $
Balance – Beginning of year	10,736,095	1,273,533	9,565,314	1,057,053
Shares issued on the exercise of options	-	-	120,781	27,480
Shares issued on private placement	-	-	1,050,000	189,000
Demand share purchase loans	-	(41,600)	-	(42,000)
Balance – End of year	10,736,095	1,231,933	10,736,095	1,231,533

Demand share purchase loans

These loans receivable, due from employees and directors, are secured by 280,000 shares of the Company, with a market value of $33,600. The loans, which are due on demand, are non-interest bearing and were made in connection with the purchase of shares of the Company. The loans are required to be paid in full in 2010. Repayments of $400 and $9,450 were made during the 2003 and 2002 years respectively.

Stock option plan

The Company has a stock option plan that provides for the issuance of stock options to key employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. These share options vest immediately once they have been granted. Outstanding stock options will expire over a period ending no later than June 5, 2007. The Company has reserved 19,263,905 shares in Treasury to meet share options outstanding. No options were granted or exercised during the year.

	2003		2002	
	Number of shares #	**Weighted average exercise price $**	**Number of shares #**	**Weighted average exercise price $**
Number of shares under option – Beginning of year	1,049,219	0.23	956,500	0.22
Options granted	-	-	425,000	0.26
Options exercised	-	-	(120,781)	0.23
Options cancelled or expired	(567,826)	0.21	(211,500)	0.21
Number of shares under option – End of year	481,393	0.25	1,049,219	0.23

At end of year, the following options were outstanding:

	Number of share options outstanding – June 30, 2003 #	**Weighted average remaining contractual life years**
Exercise price per share		
$0.21	215,000	3,76
$0.23	56,393	1.91
$0.30	210,000	4.69
	481,393	3.51

12 Financial instruments

The Company's financial instruments recognized in the consolidated balance sheet include accounts receivable, bank indebtedness, accounts payable and accrued liabilities and income taxes payable. The fair value of these financial instruments approximate their carrying value due to the immediate or short-term maturity of these financial instruments. The fair value of the amounts due to and from employees, directors and related parties cannot be estimated, due to the uncertainty associated with the length of time until repayment.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables and unbilled revenue. Included in accounts receivable at June 30, 2003 is $153,308 due from the Company's three largest customers.

The Company's bank operating lines are subject to fluctuations in interest rates. For each 1% change in the rate of interest on the bank operating lines subject to floating rates, the change in annual interest expenses is $6,400 based upon the operating line balances at June 30, 2003.

13 Segmented information

Operating segments are defined as components of an enterprise about which separate financial information is available and is evaluated regularly by the Company's chief decision maker in deciding how to allocate resources and assess performance. The Company's chief decision maker is the Chief Operating Officer.

The Company's reportable segments are its: engineering services, computer consulting services, equipment rental services and oilfield manufacturing segments. Each operating segment is led by a senior executive and offers different products. The Company evaluates performance based on net earnings and uses capital employed to assess resources allocated to each segment. Information regarding its operations and assets by segment is as follows:

	Engineering $	Computer consulting $	Equipment rentals $	Oilfield $	Corporate $	Consolidated $
Year ended June 30, 2003						
Total revenue	1,369,796	1,148	-	389,573	-	1,760,517
Inter-segment revenue	-	-	-	-	-	-
	1,369,796	1,148	-	389,573	-	1,760,517
Interest expense	9,799	-		45,369	1,537	56,705
Income taxes	37,666	-	-	-	-	37,666
Net earnings (loss)	304,764	(193,910)	(47,051)	(691,735)	(214,984)	(842,916)
Amortization	41,516	77,679	-	54,021	-	173,216
Capital employed	671,788	1,938	385	1,568,451	133,477	2,376,039
Goodwill	-	-	-	-	75,796	75,796
Capital expenditures	11,125	986	-	8,980	-	21,091

All of the Company's operations, employees and assets are located in Canada. Sales to customers in foreign countries were $282,488 during the year (2002 – $63,697).

The revenues of the Oilfield Manufacturing segment of $389,573 during 2003 were comprised mainly of the rental of one Top Drive unit, of which $356,948 was earned from two customers.

Goodwill represents the unamortized portion of the excess of purchase price paid for the engineering segment over the fair value of net assets acquired. There have been no changes to the carrying amount of goodwill for the year ended June 30, 2003.

	Engineering $	Computer consulting $	Oilfield $	Corporate $	Consolidated $
Year ended June 30, 2002					
Total revenues	1,348,958	23,496	723,136	-	2,095,590
Inter-segment revenues	(17,222)	-	(11,358)	28,580	-
	1,331,736	23,496	711,778	28,580	2,095,590
Interest expense	7,741	951	17,115	-	25,807
Income taxes	34,900	-	-	-	34,900
Net earnings (loss)	245,453	(70,051)	15,679	(279,619)	(88,538)
Amortization	31,347	77,348	27,644	13,200	149,539
Capital employed	656,801	228,180	972,456	119,512	1,976,949
Goodwill	-	-	-	75,796	75,796
Capital expenditures	23,769	1,848	38,245	-	63,862

14 Diluted (loss) earnings per share

Options to purchase 481,393 common shares were outstanding during the year ended June 30, 2003 but were not included in the computation of diluted loss per share because the effect would be anti-dilutive.

15 Contingency

The Company owns a one-fifth interest in two oil and gas leases, and may be required to pay a portion of future removal and site restoration costs, net of expected recoveries from the sale of the equipment. As the amount of these future removal and site restoration costs cannot be reasonably determined, no accrual of these costs has been made in these financial statements.

16 Changes in non-cash working capital items

	2003 $	2002 $
Accounts receivable	20,614	(76,675)
Unbilled revenue	(32,632)	49,862
Inventory	(637,412)	(221,960)
Prepaid expense	(43,081)	(8,953)
Accounts payable and accrued liabilities	707,028	(112,088)
Income taxes payable	4,810	16,222
	19,327	(353,592)

17 Subsequent events

In August 2003, the Company entered into a series of agreements to issue 4,935,492 new common shares in exchange for forgiveness of related party and third party debt. The Company plans to issue 3,086,236 new common shares in exchange for forgiveness of amounts due to directors and related companies controlled by directors totalling $370,347. The Company also plans to issue 1,849,256 new common shares in exchange for forgiveness of accounts payable of $221,910. As of September 26, 2003, the agreements had been approved by the TSX Venture Exchange, but approval had not yet been obtained from the relevant securities commissions.

18 Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation for the current year.